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SUBJECT: KAZAKHSTAN: PRESIDENT SIGNS RENEWABLE ENERGY LAW

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11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: On July 7, President Nazarbayev signed the law "In Support of Renewable Energy Sources" that will promote environmentally friendly power generation, including the use of renewable energy sources. This legislation -- as well as information gleaned from meetings with local experts -- demonstrates that Kazakhstan is serious about renewable energy, energy efficiency, and implementation of the Kyoto Protocol, which the government ratified on March 26. END SUMMARY.

RENEWABLE ENERGY LAW EXPECTED TO ATTRACT INVESTMENT

13. (SBU) A new law, "In Support of Renewable Energy Sources," which came into effect on July 7, requires the Kazakhstan Electric Grid Operating Company (KEGOC) and regional power distribution companies to buy power on the open market to cover actual technical losses above allowed losses. At least 50 percent of that open market-procured power would have to come from renewable sources, essentially creating a captive market for renewable generation. The Ministry of Energy and Mineral Resources (MEMR) expects this new requirement to purchase power from renewable energy sources to attract investors to the sector. Of course, investors would have to cover the cost of connecting power generation to distribution or transmission networks, and regional power distribution companies would be responsible for modernizing the grid, if required, to receive power from renewable sources.

NEW RENEWABLE ENERGY AGENCY PROPOSED, BUT DISMISSED

14. (SBU) Gennadiy Doroshin, project manager for the United Nations Development Programme (UNDP) Wind Power Project (WPP), supports the new law, although he initially advocated a slightly different

approach. On June 10, Doroshin told Energy Officer that he originally proposed the government establish a Renewable Energy Agency to manage renewable power generation and distribution via certificates, based on the principles of supply and demand. However, according to Doroshin, in November 2008, the government dropped the idea of establishing a new agency and decided to "give the law five years and see how it works." Doroshin said MEMR would be willing to consider the creation of a separate Renewable Energy Agency, if the renewable energy law succeeds in attracting investment.

AES WILL INVEST, IF CONDITIONS ARE RIGHT

15. (SBU) On June 11, Doug Herron, Head of the Representative Office for AES Silk Road, Inc., told Energy Officer that AES would be very interested in pursuing opportunities in the renewable energy sector, provided the market conditions were acceptable. "The question is," he said, "at what price could we sell renewable energy to consumers? The answer to that would be critical to any investment decision." According to the government's electricity tariff regulations, the price of power generated from renewable sources will exceed that from traditional sources, such as coal. UNDP's Doroshin said the average cost of power generated by coal-fired power plants is approximately 5 cents per kWh, whereas he expects the cost of wind power to be 7-10 cents. According to the new law, if renewable power plants generate up to 25 megawatts, their tariffs will be approved by local authorities. If they generate more than 25 megawatts, the tariffs must be approved by MEMR.

UNDP WIND POWER PROJECT

16. (SBU) On June 10, Doroshin told Energy Officer that for the past five years, his project has estimated Kazakhstan's wind power potential, identified attractive locations for wind power plants, provided training to government officials, and designed a pilot wind

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power plant at Jungar Gates in Almaty oblast, near the Chinese border. Doroshin complained that the National Wind Power Program, drafted by UNDP in 2004, has not yet been approved by the Ministry of Energy and Mineral Resources (MEMR). Doroshin also said that his project, together with Australia's Parsons Brinkerhoff Power Company, will soon publish a wind atlas of Kazakhstan.

JUNGAR GATES PILOT READY FOR TAKE OFF

17. (SBU) Doroshin told Energy Officer that he has been waiting for the renewable energy law to move ahead with the Jungar Gates pilot project. He said that MEMR asked UNDP to increase the plant's capacity from 5 megawatts, in order to make the overall project more commercially attractive for Chinese, Indian, Korean, and Japanese companies, which have already expressed interest in investing in wind power projects in Kazakhstan. The Jungar Gates wind power plant will be connected to the Chinese power grid and supply power to residents of western China. The project has been delayed, because until the renewable energy law was passed, MEMR had no way to require companies to buy power from renewable energy sources.

ENERGY EFFICIENCY YIELDS SIGNIFICANT SAVINGS

18. (SBU) Yerbolat Buksykbayev, director of the Center for Energy Efficiency and Clean Production (CEECP), has been working with international donors, the Almaty oblast, and private companies to promote energy efficiency since 2002. CEECP relies on local experts and customized software tools to calculate the efficiency of energy use at industrial sites, universities, schools, and hospitals. According to Buksykbayev, his energy efficiency programs can save an organization up to 40 percent on their electricity bill.

NEW REQUIREMENT FOR ENERGY PASSPORTS

19. (SBU) Buksykbayev expects a new law on Energy Efficiency to be adopted during the third quarter, which he believes will increase demand for CEECP's services. According to Buksykbayev, the Energy Efficiency Law would require companies to have so-called energy passports, which would provide summary results of an energy audit,

describing a given facility's energy consumption profile. Buksykbayev said that only two specialists from the Energy Supervision Committee have been trained and licensed to issue such passports, and he doubts that the government will have the capacity to provide each company with a separate passport. CEECP has been delivering courses at three technical universities to enable more specialists to issue such passports.

CLIMATE CHANGE CENTER WORKS TO IMPLEMENT KYOTO PROTOCOL

¶10. (SBU) Saulet Sakenov of the Astana Climate Change Coordination Center (C4) informed Energy Officer on June 12 that the organization was established in 2002 by the USAID Greenhouse Gas (GHG) Emission Reduction Initiative. C4 works to implement the United Nations Framework Convention on Climate Change, the Kyoto Protocol, and the Vienna Convention on Ozone Layer Protection. The Center has played an active role in reviewing and shaping the draft laws on renewable energy and energy efficiency. C4 also carries out joint projects on GHG emissions with Slovakia's Profing, Denmark's Rambol, Japan's Tohoku and Nedo, TACIS, UNDP, the Asian Development Bank and other international organizations. Sakenov said that following the March 26 ratification of the Kyoto Protocol, Kazakhstan would agree to binding greenhouse gas emission targets and would be eligible to participate in Joint Implementation and Clean Development Mechanism projects. Kazakhstan has developed unified project submission guidelines and has approved two projects, but has not yet agreed on a final institutional framework for project review.

KAZAKHSTAN SEEKS TO TRADE ITS CARBON SURPLUS

¶11. (U) According to an October 2008 study by the UNDP Bratislava Regional Climate Change Center, Kazakhstan is the eighth most GHG-intensive economy in the world, with a carbon intensity equal to

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1,872 tons of carbon dioxide equivalent per \$1 million of GDP (at purchasing power parity.) Despite the high carbon intensity of its industrial output, Kazakhstan's annual GHG emissions of approximately 240 million tons are still well below the cap of 340 million tons allocated to Kazakhstan under the Kyoto Protocol, thereby giving Kazakhstan an opportunity to trade this carbon surplus on the world market. (NOTE: Kazakhstan's cap of 340 million tons derives from the Kyoto protocol's target of reducing carbon emissions in comparison to a 1990 emissions baseline. Kazakhstan's reduction target is 0% of 1990 levels. In 1990, Kazakhstan's emissions were 340 million tons. END NOTE).

¶12. (U) President Nazarbayev reiterated Kazakhstan's commitment to the Kyoto Protocol at the June 12 meeting of the Foreign Investors' Council. He also called on the Ministry of Environmental Protection (MEP) to play a more active role in developing energy efficiency and selling carbon credits. "The Kyoto Protocol opens new opportunities to increase energy efficiency and attract up to \$1 billion in new investments," he said. President Nazarbayev urged the MEP to develop procedures and establish a market exchange for trading its carbon quota. In February, former Minister of Environmental Protection Nurlan Iskakov estimated that ratification of the Kyoto Protocol would attract up to \$300 million in investments in 2009-10, and \$500-600 million through 2012. Japan, a potential buyer, has already purchased emission rights from ten Eastern and Central European countries in the last two years.

¶13. (SBU) COMMENT: Despite the abundance of relatively cheap fossil fuels in Kazakhstan, the government is clearly serious about climate change, renewable energy, and energy efficiency. Kazakhstan's ratification of the Kyoto Protocol, the new law on renewable energy, and the draft law on energy efficiency demonstrate that the government is willing to change the way it does business. However, the incremental nature and favorable terms of these changes also indicate that the government is not willing to pay a high price in the short term in order to realize longer-term economic and social gains. Industry analysts estimate that it will cost several hundred million dollars to install the hundreds of megawatts in power generation required to make renewable sources of energy a viable alternative in Kazakhstan. Once the government begins to consider these costs, it might look at ways to reduce technical

losses and improve service quality by investing in network upgrades and replacing old transformers. In other words, a concerted effort to improve energy efficiency would actually avoid more emissions and provide greater energy security than supplanting thermal generation with renewable sources. END COMMENT.

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